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No. 1012

In the
Supreme Court of the United States
OCTOBER TERM, 1968

NATIONAL SPONGE CUSHION CO., INC.,
Petitioner,

v.

ALLEN INDUSTRIES, INC. and
COLONIAL RUBBER WORKS, INC.,
Respondents.

PETITION FOR REHEARING OF ORDER DENYING CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

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Petitioner prays for a rehearing of its application for a writ of certiorari which was denied March 24, 1969.

SUBSTANTIAL GROUND NOT PREVIOUSLY PRESENTED

The substantial ground available to petitioner although not previously presented, which gives rise to this petition for rehearing, is the possible discriminatory and anti-competitive royalty structure arising out of the **direct conflict** between Courts of Appeal for the Third and Ninth Circuit as to the validity of petitioner's patent, which this Court has let stand.

Unless this validity conflict is resolved, respondents here are free to practice the patented invention without accounting to the patent owner while at the same time certain licensees may still be liable for royalties, and other infringers who refuse licenses are subject to infringement actions and judgments for damages. *Triplett* v. *Lowell,* 297 U.S. 638, 644 (1936).

The question now squarely presented by this Court's denial of certiorari is thus: **does petitioner have the right to continue to assert its patent under *Triplett,* and, if so, how does the rule of that case square with cases condemning certain discriminatory practices.**

PROBLEM RECOGNIZED BY THE PRESIDENT'S COMMISSION

This problem and its possible anti-competitive effects were recognized by the President's Commission on the Patent System, which was established by Executive Order No. 11215 of April 8, 1965. In its 1966 Report to the President*, it pointed out that even though a patent has been held invalid in one circuit the patentee may pursue a different defendant in another circuit for infringement of the same patent. It stated (Page 39):

> "As a result, a party may be held liable as an infringer or required to pay royalties in one circuit, while his direct competitor is practicing the same invention without restriction in another circuit. . . ."

The Commission's Recommendation No. XXIII to cope with this situation, *i.e.,* "a claim, once held invalid, would

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* "'To Promote the Progress of . . . Useful Arts' in an Age of Exploding Technology"—Report of The President's Commission on the Patent System, Washington, D.C. 1966, Superintendent of Documents, U.S. Government Printing Office.

be treated as cancelled from the patent", has **not** been enacted into law and is **not** present in any of the enabling legislation currently before Congress (e.g., S. 1246, 91st Congress, 1st Session). Thus, with the Ninth Circuit holding petitioner's patent valid and the Third Circuit holding it invalid, petitioner can only look to this Court to resolve the dilemma. Otherwise petitioner must engage in further protracted litigation without hope of ever resolving an already-existing conflict.

ANTI-COMPETITIVE SITUATION CONDEMNED IN OTHER CASES

In a series of cases, the use of discriminatory rates in the leasing of patented machines, although not brought about, as here, by conflicting decisions of two different Courts of Appeal, have been held to be unlawful.

In *LaPeyre* v. *Federal Trade Commission,* 366 F.2d 117 (5 Cir. 1966), different rates were charged for rental of identical patented machines. The F.T.C. concluded that the leasing procedure was innately discriminatory and anti-competitive in its effect, that the refusal to grant the same rate to all had substantially and unjustifiably injured competition, and that the patent owners had violated Section 5 of the Federal Trade Commission Act. The Court of Appeals agreed, stating (Page 120) that it is

> ". . . the duty of a lawful monopolist to conduct its business in such a way as to avoid inflicting competitive injury on a class of customers. . . ."

In the case at bar, the respondents, which sell the allegedly infringing product nationally, will be in a class by themselves. They pay no royalties, whereas their competitors are subject thereto.

In *Peelers Company* v. *Wendt,* 260 F.Supp. 193 (W.D. Wash., 1966), the same anti-competitive situation was held to be a violation of Section 2 of the Sherman Act. The court observed that, although price discrimination is the specific subject of the Robinson Patman Act, such circumstance does not preclude price or lease rate discrimination from being a cause of a Sherman Act violation.

In *Laitram Corporation* v. *King Crab, Inc.,* 245 F.Supp. 1019 (D. Alaska, 1965), the same discriminatory practices were held to be a misuse of patents precluding the award of an injunction or damages for infringement during the period within which discriminatory rates were effective. In the case at bar the discriminatory situation arises from the unresolved conflict in decisions between Courts of Appeal.

SUPREME COURT RULE 58 CONTEMPLATES CERTIORARI IF A CONFLICT EXISTS

In Rule 58, par. 2, of this Court, three case citations are set forth to illustrate when petitions for rehearing of orders on petitions for writs of certiorari may be granted. Two of the three cases involve patents and support petitioner's position that certiorari should be granted.

In *Sanitary Refrigerator Co.* v. *Winters,* 280 U.S. 30, 34, footnote 1 (1929), the petition for rehearing was granted because after denial of certiorari to one circuit a conflicting decision was handed down by another circuit. In the case at bar we already have two conflicting decisions from different circuits.

In *Schriber-Schroth Co.* v. *Cleveland Trust Co.,* 305 U.S. 47, 50 (1938), rehearing was granted after certiorari had been denied because the petitioner showed that the

industry (auto) was so concentrated in one circuit, the Sixth Circuit, that it was unlikely that a conflict between Courts of Appeal could ever be obtained. Here no such explanation is necessary. We have an actual conflict between Courts of Appeal.

CONCLUSION

Petitioner submits that basic fundamental issues going beyond any private interest fully justify resolution of the direct conflict between circuits. Confusion, uncertainty, further protracted litigation and a possible discriminatory and anti-competitive situation can only result if certiorari is not granted.

Respectfully submitted,

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April 15, 1969

CERTIFICATE OF ATTORNEY

I hereby certify that the foregoing PETITION FOR REHEARING OF ORDER DENYING CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT is presented in good faith, and not for delay, and is restricted to the substantial ground available to petitioner, as set forth therein, although not previously presented.

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